

Why Parents Should Give Their College Students the Gift of Professional Financial Planning

In August, the Wall Street Journal reported that student-loan debt now surpasses credit card debt as the No. 1 source of outstanding consumer debt with some \$829.8 billion in current federal and private school loans.

For some, those statistics are a good news story – that individuals are finally getting serious about paying off the plastic. For others, it's more a sign that the rising cost of college is simply becoming a greater albatross around the necks of graduates for years to come.

Maybe the time for a financial education shouldn't be the moment the new grad gets his first job or rents his first apartment. Maybe it should start earlier – like senior year of high school. Parents might consider introducing their 18-year-old to a financial planner who will instill some critical lessons about debt, savings, investing and planning before they're off on their own on a campus far from home.

Why pay for advice parents can offer at home? The simple truth is that many parents are struggling trying to understand their own financial circumstances, particularly if they haven't done much planning themselves. That's why it might make sense for a parent who seeks out qualified financial advice to extend that planner's assistance to children on the verge of adulthood. Here's why:

The average college loan debt now tops \$20,000: Whether your child has been forced to borrow heavily or not at the start of his college career, the simple fact is that in four years, a family's financial circumstances can change substantially. News reports are filled with stories of college students signing their name to private loans that cost them heavily down the line. A financial planner and possibly a tax professional can act as advisors and tutors to teens and young adults so they won't fall into financing traps that can damage the rest of their financial lives. There's another reason that debt management for school loans alone is important – based on current bankruptcy law, student debt is virtually impossible to eliminate in a bankruptcy filing. Indeed, it's another way of saying that student debt is forever.

Young people possess the most valuable asset of all – time: In college, most students are focused on one goal – graduating and getting a good job. But what if students put that goal in the context of affording a home, affording graduate school and eventually affording a solid retirement? A planner could help a student entertain the notion of smart savings and tax planning while they're still in school so they can focus their thinking about goals and what it will take to pay for them.

Lifetime habits are best built in youth: Don't you wish you started saving for retirement at age 18? Exactly. The 2010 contribution limit for taxpayers under 50 years of age to a traditional or Roth IRA is the smaller of \$5,000 or the amount of your taxable compensation for the year. The contribution can be split between a traditional or Roth IRA, but the combined limit is \$5,000. Learning about the need to save independently for retirement is best delivered while someone is

young. The moment a new graduate qualifies for an employer-sponsored 401(k) plan, they'll know how attractive that option will be particularly if it offers matching. If this saving can be done while not accumulating significant debt, that's obviously a goal.

Financial planning means professional training with budgets and spending decisions:

The opportunity to interact with a trained adult on the subject of money – someone who is not the student's parent – gives a student a chance to learn and ask questions on an adult-to-adult basis. Planner and student can work together to set and monitor savings, investing and spending goals with proper supervision. Parents and children can also decide how much information they'll be sharing about each other's financial situation.

Financial literacy can help students better evaluate career decisions: Students who understand money stand a better chance of choosing careers and employers who will meet their expectations in terms of work-based challenges and compensation. A financial planner can provide a good sounding board with regard to job offers and benefits offered at prospective employers. Students who get this training are destined to be better than many of their peers at negotiating with employers throughout their careers.

October 2010 — This column is produced by the Financial Planning Association, the membership organization for the financial planning community, and is provided by Marnie Aznar, MBA, CFP®, a local member of FPA.